

CREDIT OPINION

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Town of Scarborough, ME

Update to credit analysis following upgrade to Aa2

Summary

[Scarborough, ME](#) (Aa2) benefits from a moderately sized, growing tax base with above average wealth levels, adequate though improving financial reserves, and manageable long term liabilities. The town had previously considered building a new \$160 million K-3 building, but voters rejected the plans over cost concerns. The town is working on a new building that will be in the range of \$70-130 million of total cost, most of which would be financed with debt. The issuance would be significant compared to the town's outstanding debt burden (likely bringing its long-term liabilities to over 130% of revenue). However, the town has a history of stable, and recently improving, finances, and its current long term liability ratio compares favorably to the Aa median.

Credit strengths

- » Above average resident wealth and incomes
- » Low fixed costs driven by modest pension and OPEB liabilities

Credit challenges

- » Elevated debt burden with additional debt expected
- » Reserve position is below average for the rating category

Rating outlook

Moody's does not usually assign outlooks to local government credits with this amount of debt outstanding.

Factors that could lead to an upgrade

- » Significant diversification and improvement to the tax base
- » Sustained increase in reserves above 25% of revenues

Factors that could lead to a downgrade

- » Trend of operating deficits resulting in reserve declines below 10% of revenue
- » Growth in long term liabilities above 300% of revenue

Key indicators

Exhibit 1

Scarborough (Town of) ME

	2021	2022	2023	2024	Aa Medians
Economy					
Resident income ratio (%)	150.7%	143.9%	N/A	N/A	114.1%
Full Value (\$000)	\$4,807,600	\$4,988,750	\$5,592,350	\$6,548,950	\$2,888,367
Population	21,857	22,315	N/A	N/A	22,430
Full value per capita (\$)	\$219,957	\$223,560	N/A	N/A	\$125,640
Annual Growth in Real GDP	7.7%	3.4%	3.9%	N/A	2.0%
Financial Performance					
Revenue (\$000)	\$113,594	\$119,951	\$128,844	\$136,166	\$52,335
Available fund balance (\$000)	\$13,460	\$15,965	\$13,753	\$24,110	\$29,526
Net unrestricted cash (\$000)	\$29,238	\$35,926	\$31,605	\$42,174	\$41,432
Available fund balance ratio (%)	11.8%	13.3%	10.7%	17.7%	57.1%
Liquidity ratio (%)	25.7%	30.0%	24.5%	31.0%	79.6%
Leverage					
Debt (\$000)	\$104,933	\$100,846	\$92,471	\$94,282	\$37,305
Adjusted net pension liabilities (\$000)	\$44,136	\$39,889	\$26,226	\$21,991	\$45,496
Adjusted net OPEB liabilities (\$000)	\$8,524	\$9,065	\$8,103	\$8,993	\$4,376
Other long-term liabilities (\$000)	\$3,756	\$5,393	\$5,636	\$5,552	\$1,726
Long-term liabilities ratio (%)	142.0%	129.4%	102.8%	96.1%	210.2%
Fixed costs					
Implied debt service (\$000)	\$7,837	\$7,360	\$7,043	\$6,424	\$2,477
Pension tread water contribution (\$000)	\$1,056	\$583	\$1,100	\$0	\$1,199
OPEB contributions (\$000)	\$222	\$218	\$239	\$276	\$179
Implied cost of other long-term liabilities (\$000)	\$242	\$263	\$377	\$392	\$115
Fixed-costs ratio (%)	8.2%	7.0%	6.8%	5.2%	9.6%

For definitions of the metrics in the table above please refer to the [US Cities and Counties Methodology](#) or see the Glossary in the Appendix below. Metrics represented as N/A indicate the data were not available at the time of publication. The medians come from our most recently published [US Cities and Counties Median Report](#).

The real GDP annual growth metric cited above is for the Portland-South Portland, ME Metropolitan Statistical Area Metropolitan Statistical Area.

Sources: US Census Bureau, Scarborough (Town of) ME's financial statements and Moody's Ratings, US Bureau of Economic Analysis

Profile

Scarborough has a population of 22,315 and is located on the southern coast of Maine, approximately seven miles south of Portland.

Detailed credit considerations

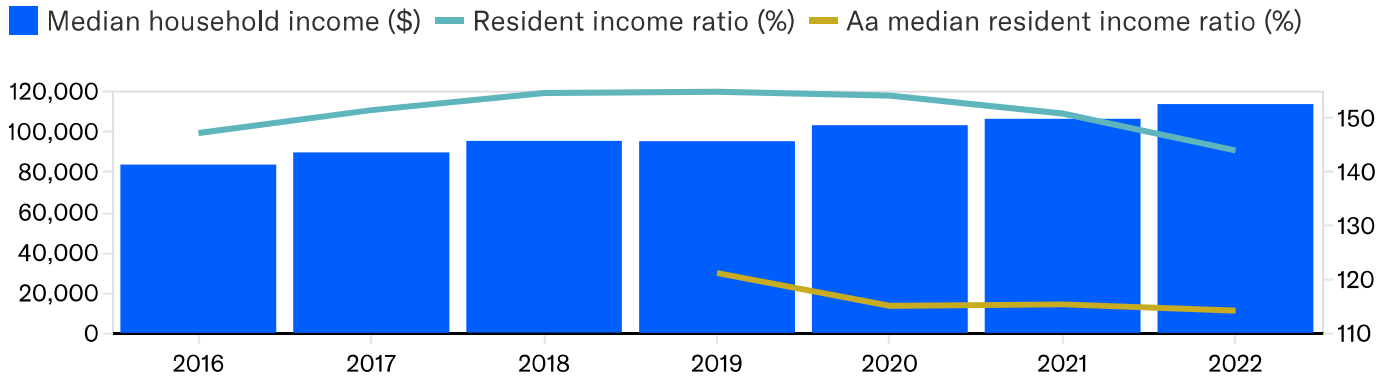
The strength of Scarborough's already wealthy tax base continues to improve as ongoing population increases lead to higher economic activity and additional housing units. From 2019 to 2024, the town's population increased by 14%, reflecting a significant uptick from prior years. That growth has led to the construction of at least 240 apartment units along with new single family housing. Outside of economic improvements, that growth is helping the town's enrollment stabilize after falling for several years. The town's top ten taxpayers make up just 7% of assessed value.

The town's financial position improved in fiscal 2024 and will continue to improve once fiscal 2025 results are published given a new, more restrictive fund balance policy that management adopted in November 2024. Fiscal 2024 results demonstrated a \$9.3 million surplus in total governmental fund balance, with available fund balance increasing to 17.7% of revenue, the highest level in at least five years. Fiscal 2025 results are trending in line with the budget though investment income is outperforming original estimates. Importantly, in fiscal 2025, the town expects to eliminate the deficit that has long existed at the Haigis Parkway fund, further demonstrating a commitment to maintaining balanced operations throughout the town. The fiscal 2026 budget is sized for breakeven operations with an expected 3% increase in the tax levy offsetting expected expenditure growth.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

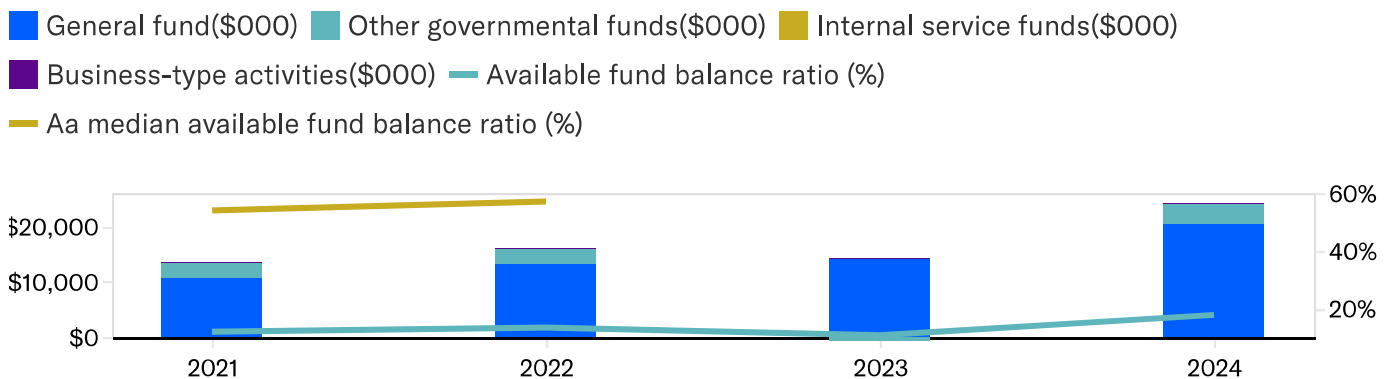
In November 2023, voters rejected the town's \$160 million K-3 school building over cost concerns. The town expects to go back to voters in November 2025 with a vote in the range of \$70-130 million. While we still expect the vast majority of the project to be financed with debt, the lower dollar amount and the lack of significant pension and OPEB liabilities results in a manageable forward looking leverage profile.

Exhibit 2

Resident Income

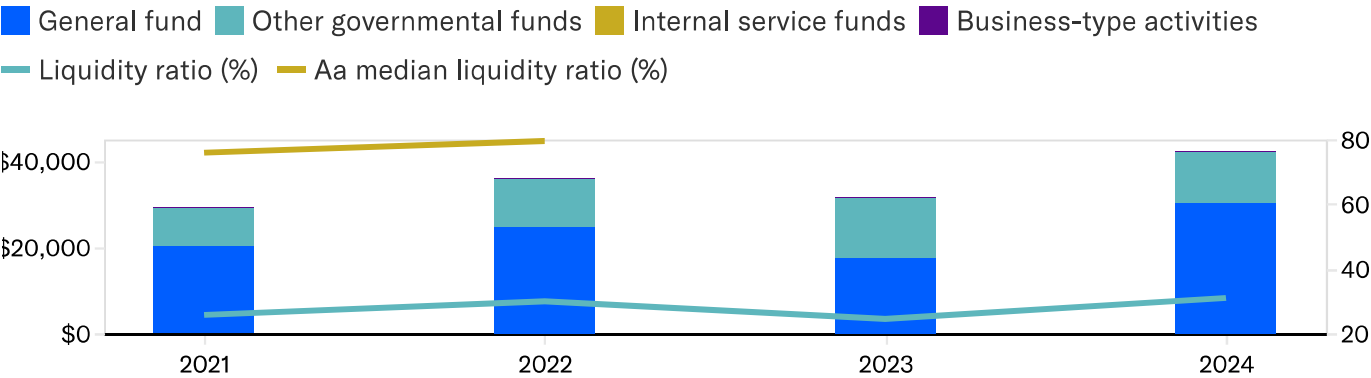
Source: Moody's Ratings

Exhibit 3

Fund Balance

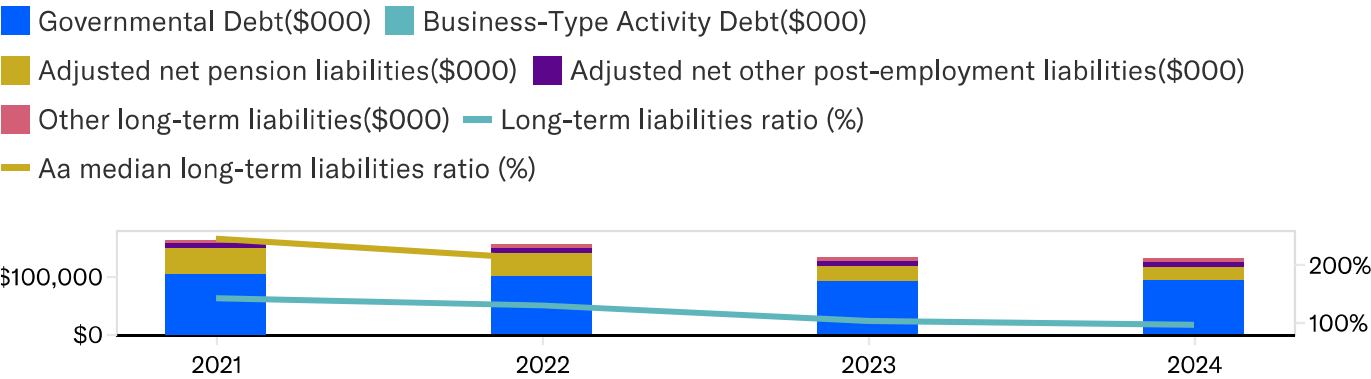
Source: Moody's Ratings

Exhibit 4
Cash



Source: Moody's Ratings

Exhibit 5
Total Primary Government - Long Term Liabilities

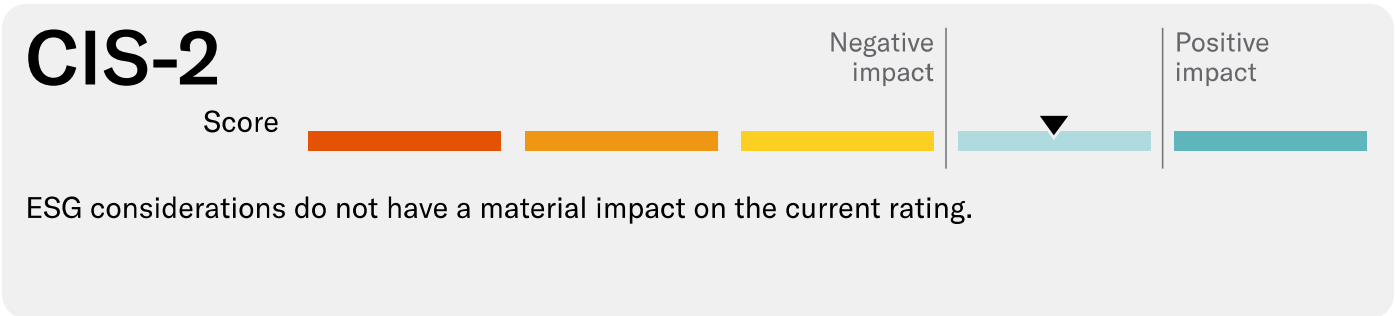


Source: Moody's Ratings

ESG considerations

Scarborough (Town of) ME's ESG credit impact score is CIS-2

Exhibit 6
ESG credit impact score

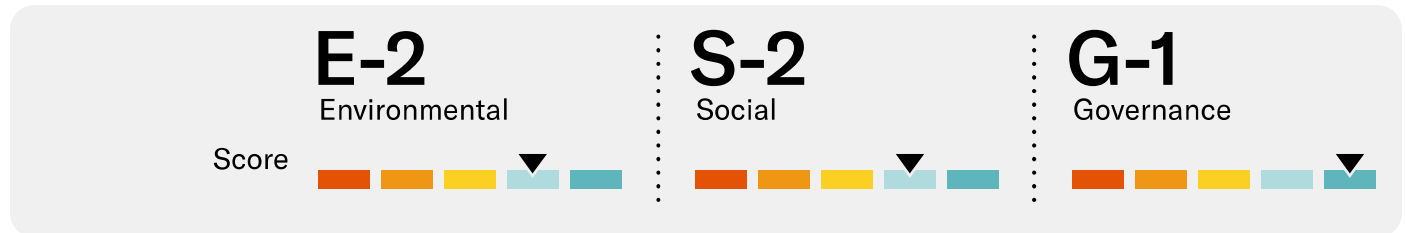


Source: Moody's Ratings

The town's ESG credit impact score is neutral to low (CIS 2), reflecting neutral to low exposure to environmental and social risks and positive governance profile.

Exhibit 7

ESG issuer profile scores



Source: Moody's Ratings

Environmental

The town's **E-2** environmental issuer profile score reflects neutral to low exposure to environmental risks. The town's exposure to risks associated with carbon transition, natural capital, and water and pollution is modest. Given the town's geographical location, physical climate risk is also neutral to low with no material exposure to sea level rise and moderate exposure to shocks from extreme weather events such as hurricanes and nor-easters.

Social

The town's **S-2** social issuer profile score reflects neutral to low exposure to social risks. The town has moderate exposure to demographic risks balanced by strong educational attainment and neutral to low exposure to risks associated with labor and income, housing, health and safety, and access to basic services.

Governance

The town's governance issuer profile score is positive (**G-1**). The town has a favorable institutional structure and provides strong transparency and disclosure. The town also consistently approves and releases its budgets and audited financial statements in a timely manner. The town's strong budget management and policy credibility and effectiveness are reflected in its healthy financial position and trend of balanced operations.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moody's.com. In order to view the latest scores, please click [here](#) to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The US Cities and Counties Rating Methodology includes a scorecard, which summarizes the rating factors generally most important to city and county credit profiles. Because the scorecard is a summary, and may not include every consideration in the credit analysis for a specific issuer, a scorecard-indicated outcome may or may not map closely to the actual rating assigned.

Exhibit 8

Scarborough (Town of) ME

	Measure	Weight	Score
Economy			
Resident income ratio	143.9%	10.0%	Aaa
Full value per capita	293,477	10.0%	Aaa
Economic growth metric	1.5%	10.0%	Aaa
Financial Performance			
Available fund balance ratio	17.7%	20.0%	A
Liquidity ratio	31.0%	10.0%	Aa
Institutional Framework			
Institutional Framework	Aa	10.0%	Aa
Leverage			
Long-term liabilities ratio	96.1%	20.0%	Aaa
Fixed-costs ratio	6.0%	10.0%	Aaa
Notching factors			
No notchings applied			
Scorecard-Indicated Outcome			Aa2
Assigned Rating			Aa2

The Economic Growth metric cited above compares the five-year CAGR of real GDP for Portland-South Portland, ME Metropolitan Statistical Area Metropolitan Statistical Area to the five-year CAGR of real GDP for the US.

Sources: US Census Bureau, Scarborough (Town of) ME's financial statements and Moody's Ratings

Appendix

Exhibit 9

Key Indicators Glossary

	Definition	Typical Source*
Economy		
Resident income ratio	Median Household Income (MHI) for the city or county, adjusted for Regional Price Parity (RPP), as a % of the US MHI	MHI: US Census Bureau - American Community Survey 5-Year Estimates RPP: US Bureau of Economic Analysis
Full value	Estimated market value of taxable property in the city or county	State repositories; audited financial statements; continuing disclosures
Population	Population of the city or county	US Census Bureau - American Community Survey 5-Year Estimates
Full value per capita	Full value / population	
Economic growth metric	Five year CAGR of real GDP for Metropolitan Statistical Area or county minus the five-year CAGR of real GDP for the US	Real GDP: US Bureau of Economic Analysis
Financial performance		
Revenue	Sum of revenue from total governmental funds, operating and non-operating revenue from total business-type activities, and non-operating revenue from internal services funds, excluding transfers and one-time revenue, e.g., bond proceeds or capital contributions	Audited financial statements
Available fund balance	Sum of all fund balances that are classified as unassigned, assigned or committed in the total governmental funds, plus unrestricted current assets minus current liabilities from the city's or county's business-type activities and internal services funds	Audited financial statements
Net unrestricted cash	Sum of unrestricted cash in governmental activities, business type activities and internal services fund, net of short-term debt	Audited financial statements
Available fund balance ratio	Available fund balance (including net current assets from business-type activities and internal services funds) / Revenue	
Liquidity ratio	Net unrestricted cash / Revenue	
Leverage		
Debt	Outstanding long-term bonds and all other forms of long-term debt across the governmental and business-type activities, including debt of another entity for which it has provided a guarantee disclosed in its financial statements	Audited financial statements; official statements
Adjusted net pension liabilities (ANPL)	Total primary government's pension liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Adjusted net OPEB liabilities (ANOL)	Total primary government's net other post-employment benefit (OPEB) liabilities adjusted by Moody's to standardize the discount rate used to compute the present value of accrued benefits	Audited financial statements; Moody's Investors Service
Other long-term liabilities (OLTL)	Miscellaneous long-term liabilities reported under the governmental and business-type activities entries	Audited financial statements
Long-term liabilities ratio	Debt + ANPL + ANOL + OLTL / Revenue	
Fixed costs		
Implied debt service	Annual cost to amortize city or county's long-term debt over 20 years with level payments	Audited financial statements; official statements; Moody's Investors Service
Pension tread water contribution	Pension contribution necessary to prevent reported unfunded pension liabilities from growing, year over year, in nominal dollars, if all actuarial assumptions are met	Audited financial statements; Moody's Investors Service
OPEB contribution	City or county's actual contribution in a given period	Audited financial statements
Implied cost of OLTL	Annual cost to amortize city or county's other long-term liabilities over 20 years with level payments	Audited financial statements; Moody's Investors Service
Fixed-costs ratio	Implied debt service + Pension tread water + OPEB contributions + Implied cost of OLTL / Revenue	

*Note: If typical data source is not available then alternative sources or proxy data may be considered. For more detailed definitions of the metrics listed above please refer to the [US City and Counties Methodology](#).

Source: Moody's Investors Service

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